CIBC Asset Management

Market Spotlight

August 2015

Global Markets

Global equity markets gained 1.8% in U.S. dollar terms in July and 6.1% in Canadian dollar terms, as the Canadian dollar tumbled against the U.S. currency.

U.S. equity markets had a slightly positive return, in line with other developed markets. Investors are still focused on the timing of the first interest rate increase since 2006, but the July Federal Reserve (Fed) meeting did not provide any more certainty around that date.

International equity markets had positive monthly returns. The Greek situation simmers for the moment, as focus is redirected to European corporate earnings and mergers and acquisition activity. At the halfway point in the European earnings season, almost 60% of companies reporting have exceeded analysts' profit expectations.

Emerging markets slid again in July, as Chinese equity markets turned in a volatile, and ultimately negative, monthly performance. Looking ahead, the People's Bank of China will likely undertake additional monetary policy easing, which will provide another dose of stimulus to support both economic growth and improve equity market sentiment.

Canadian equities had a slightly negative overall performance in July, after a very volatile month. An interest rate cut from the Bank of Canada hurt the Canadian dollar, but may ultimately improve the Canadian export picture.

Current Asset Allocation*

Asset Class	Weighting
Canadian Bonds	Underweight
International Bonds	Underweight
Canadian Equities	Market Weight
U.S. Equities	Market Weight
International Equities	Overweight
Emerging Market Equities	Overweight

**For balanced portfolios, as at July 31, 2015.*

"Sound Bites"

Luc de la Durantaye

"For more than a year, U.S. monetary authorities have been preparing financial markets for some policy-rate renormalization. Judging by the recent behaviour of market participants, it looks like the moment of truth is fast approaching, with the first rate hike expected before year-end. For this forecast to materialize, the U.S. economy has to continue to behave as expected by the Fed. This potential policy move will be data-dependent, especially in the context of a clear warning by the IMF and World Bank to be more patient before hiking rates."

Fixed Income

There were many domestic and international developments in July that impacted capital markets. However, the ongoing weakness in the Canadian economy (as measured by the fifth consecutive monthly decline in the GDP report), and the surprise reduction in the Bank of Canada rate, triggered gains in the Canadian bond market. Yields on Government of Canada bonds declined more than other bond sectors, and the Canadian market outperformed the U.S. bond market last month.

Canadian Equity

The S&P/TSX Composite Index had a return of -0.3% in July, bringing year-to-date performance to +0.6%. The flat performance masked a very choppy equity market, where the Index fell about 5% from its mid-month high, only to recover sharply by the end of July. The Canadian market continued to experience narrow performance leadership and faced concerns regarding the negative effects of a strong U.S. dollar, weaker commodity prices, a slower domestic economy and heightened uncertainty in the outlook for the European and Chinese economies.

"Sound Bites" *Introducing Valeant Pharmaceuticals*

Equity Insight

Stephen Carlin, *Managing Director and Head of Equities*

"The S&P/TSX Composite Index has barely broken even in 2015, returning 0.9% in the first half. Meanwhile, the health care sector has risen 58%, as bellwether Valeant Pharmaceuticals became the largest publicly-traded company in Canada. With an equity market value of $114 billion, Valeant eclipsed the value of Royal Bank, the former largest company, and delivered a return of 98%[1].

Valeant's performance has single-handedly contributed more to returns than all other companies combined this year. If you haven't owned Valeant, it's been a very tough market to beat. Valeant's individual weight on the S&P/TSX is now larger than many individual sectors including utilities, telecommunication services, information technology and consumer staples. With its market appreciation and acquisition growth strategy, Valeant has become a Canadian 800-pound gorilla.

This is not the first time we've observed powerful single-name stock performance in the Canadian market. Circa 2000, certain tech stocks were outperforming the market by a wide margin. It's important to note that there are notable differences between the tech bubble era and today's Valeant experience. First, Valeant sells real products (primarily in dermatology, ophthalmology and gastroenterology categories) with real revenues in global health care. During the tech craze, investors were buying companies with a technology product "opportunity" but negligible revenue. Second, Valeant has real earnings and cash flow. Tech companies were delivering very little (if any) earnings – it was all "still to come." Third, Valeant is not trading at crazy valuation metrics while tech companies were trading at nose-bleed levels.

Like all investment decisions, it's important to remain disciplined and consider both the upside and downside potential of a particular investment. An S&P/TSX market ETF will not manage through this kind of company or sector-specific risk, while a rigorous investment process will consider both risk and potential return."

[1]Return to July 29,2015.